VO of Arizona, Inc.

Statement of Activities and Report Thereon

Year Ended June 30, 2007

VO of Arizona, Inc.
Table of Contents
For the year ended June 30, 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1800 Tysons Boulevard
McLean, VA 22102-4261
Telephone (703) 918 3000
Facsimile (703) 918 3100

Report of Independent Auditors

To the Board of Directors
VO of Arizona, Inc.

We have audited the accompanying statement of activities, as defined in the contract dated July 1, 2004 between VO of Arizona, Inc. (the "Company") and the Arizona Department of Health Services – Division of Behavioral Health Services (the "ADHS-DBHS"), of the Company for the year ended June 30, 2007. This statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of activities is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of activities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of activities referred to above presents fairly, in all material respects, the activities of the Company for the year ended June 30, 2007, as defined in the contract referred to in the first paragraph.

The accompanying statement of activities has been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Contract with the State of Arizona expired August 31, 2007 and will not be renewed or extended. As the Contract is the principal source of revenue for the Company there is substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The statement of activities does not include any additional adjustments that might result from the outcome of this uncertainty, other than management's estimate of an asset impairment (see Note 2).

This report is intended solely for the information and use of the ADHS-DBHS, the State of Arizona, and the Board of Directors and management of the Company, and is not intended to be and should not be used by anyone other than these specified parties.

October 5, 2007

PricewaterhouseCoopers LLP

VO of Arizona, Inc.
Statement of Activities
For the year ended June 30, 2007

	TXIX CHILD	TXIX CMDP	TXIX DD CHILD	NTXIX/XXI CHILD	TXXI CHILD	HB2003 CHILD	TXIX SMI	TXIX DD ADULT	NTXIX/XXI SMI	HIFA II SMI
REVENUES										
401 **Revenue Under ADHS Contract**										
a ADHS Revenue	84,880,126	32,072,760	6,090,006	7,276,452	6,017,776	-	191,555,458	6,361,596	82,615,303	1,178,813
b ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-	-	-	-	-
402 Specialty & Other Grants	-	-	-	-	-	-	-	-	-	-
403 Client Fees (Co-pays)	-	-	-	-	-	-	509	-	579	-
404 **Third Party Recoveries**										
a Medicare	-	-	-	-	-	-	171,061	-	124,554	-
b Other Insurance	-	-	-	-	-	-	92,601	-	93,372	-
405 Interest Income										
406 Other Funding Sources - Non ADHS	-	-	-	-	-	-	-	-	-	-
407 Unrelated Business Activities	-	-	-	-	-	-	-	-	-	-
408 **TOTAL REVENUE**	84,880,126	32,072,760	6,090,006	7,276,452	6,017,776	-	191,819,629	6,361,596	82,833,808	1,178,813
EXPENSES										
Service Expenses:										
501 **Treatment Services**										
a Counseling										
1 Counseling, Individual	3,522,414	1,787,292	145,671	357,294	330,243	-	3,854,945	47,142	2,154,756	589,451
2 Counseling, Family	6,279,544	1,665,324	432,952	507,324	761,593	-	456,991	11,675	319,211	-
3 Counseling, Group	605,772	201,882	15,564	54,422	73,378	-	1,311,317	10,243	602,733	-
b Consultation, Assessment & Specialized Testing	5,602,130	713,743	423,136	241,092	634,415	-	1,279,895	30,029	795,865	-
c Other Professional	77,344	11,714	-	1,452	2,145	-	28	-	19,373	-
d **Total Treatment Services**	16,087,204	4,379,955	1,017,323	1,161,584	1,801,774	-	6,903,176	99,089	3,891,938	589,451
502 **Rehabilitation Services**										
a Living Skills Training	7,385,041	2,578,503	712,536	910,245	492,633	-	7,986,352	254,233	2,770,960	85,577
b Cognitive Rehabilitation	1,631	-	633	-	-	-	1,279	295	-	-
c Health Promotion	56,356	7,248	2,940	2,073	4,427	-	661,993	37,704	303,095	14,865
d Supported Employment Services	38,426	1,520	862	31,788	157	-	5,333,219	492,586	2,205,397	59,701
e **Total Rehabilitation Services**	7,481,454	2,587,271	716,971	944,106	497,217	-	13,982,843	784,818	5,279,452	160,143
503 **Medical Services**										
a Medication Services	913	-	23	182	1,647	-	430,673	6,865	79,343	29,841
b Medical Management	3,301,789	427,571	463,274	209,068	395,620	-	4,520,122	157,818	2,851,058	-
c Laboratory, Radiology & Medical Imaging	119,635	19,514	18,421	3,362	13,923	-	624,028	27,366	419,803	-
d Electro-Convulsive Therapy	-	-	-	-	-	-	97,155	-	60,055	-
e **Total Medical Services**	3,422,337	447,085	481,718	212,612	411,190	-	5,671,978	192,049	3,410,259	29,841
504 **Support Services**										
a Case Management	143,294	83,655	19,837	21,482	59,495	-	61,455,957	1,223,647	31,041,827	(540)
b Personal Assistance	800,448	321,272	355,327	90,137	51,203	-	16,491,316	227,030	4,500,420	-
c Family Support	3,810,158	745,387	473,093	175,857	203,553	-	27,605	274	7,809	-
d Peer Support	310,383	259,190	61,693	27,625	18,384	-	3,008,467	97,748	1,236,558	-
e Therapeutic Foster Care Services	3,908,048	9,454,398	307,973	74,872	-	-	427,733	-	101,998	-
f Respite Care	1,796,502	475,091	177,687	42,529	86,325	-	1,404	-	-	-
g Housing Support	-	-	-	-	-	-	-	-	2,692,030	-
h Interpreter Services	-	-	-	314,292	-	-	-	-	103,630	-
i Flex Fund Services	-	-	-	833,511	-	-	-	-	217,655	-
j Transportation	1,120,955	249,665	66,854	67,964	69,157	-	4,696,146	172,380	1,883,601	-
k Block Purchase NTXIX Consumer Drop In Center	-	-	-	-	-	-	1,051,716	-	358,908	13,996
l **Total Support Services**	11,889,788	11,588,658	1,462,464	1,648,269	488,117	-	87,160,344	1,721,079	42,144,436	13,456
505 **Crisis Intervention Services**										
a Crisis Intervention - Mobile	1,121,564	169,648	131,263	922,571	76,606	-	1,569,034	180,819	687,689	-
b Crisis Services	221,767	37,061	12,359	36,335	18,519	-	1,606,216	43,102	735,489	-
c Crisis Phones	7,344	4,367	735	694	267	-	2,494,532	37,989	1,189,709	3,909
d **Total Crisis Intervention Services**	1,350,675	211,076	144,357	959,600	95,392	-	5,669,782	261,910	2,612,887	3,909
506 **Inpatient Services**										
a Hospital										
1 Psychiatric (Provider Types 02 & 71)	3,648,141	1,381,802	244,517	164,005	80,839	-	11,319,019	645,674	8,326,497	-
2 Detoxification (Provider Types 02 & 71)	-	-	-	-	-	-	89,036	-	83,958	-
b Sub acute Facility										
1 Psychiatric (Provider Types B5 & B6)	1,061,182	1,480,847	157,299	-	-	-	1,955	-	-	-
2 Detoxification (Provider Types B5 & B6)	-	-	-	-	-	-	-	-	-	-
c Residential Treatment Center (RTC)										
1 Psychiatric - Secure & Non-Secure Provider Types 78,B1,B2,B3)	7,503,285	8,430,683	5,525	142,195	451,582	-	6,210,080	214,800	3,577,099	-
2 Detoxification - Secure & Non-Secure (Provider Types (78,B1,B2,B3)	12,835	5,463	-	-	-	-	-	-	-	-
d Inpatient Services, Professional	335,500	116,326	22,771	29,588	12,183	-	528,447	22,977	280,442	-
e **Total Inpatient Services**	12,560,943	11,415,121	430,112	335,788	544,604	-	18,148,537	883,451	12,267,996	-
507 **Residential Services**										
a Level II Behavioral Health Residential Facilities	1,829,466	2,474,249	-	77,801	9,589	-	12,733,698	42,938	3,941,363	-
b Level III Behavioral Health Residential Facilities	169,604	740,546	-	-	39,338	-	2,272,985	-	613,254	-
c Room and Board	-	-	-	758,487	-	-	-	-	1,697,970	-
d **Total Residential Services**	1,999,070	3,214,795	-	836,288	48,927	-	15,006,683	42,938	6,252,587	-
508 **Behavioral Health Day Program**										
a Supervised Day Program	50,620	14,253	903	8,730	11,118	-	1,158,418	23,079	438,379	-
b Therapeutic Day Program	827,035	183,660	33,156	64,954	83,847	-	1,746,447	15,878	543,598	-
c Medical Day Program	12,016	1,352	-	-	-	-	78	-	-	-
d **Total Behavioral Health Day Program**	889,671	199,265	34,059	73,684	94,965	-	2,904,943	38,957	981,977	-
509 **Prevention Services**										
a Prevention	-	-	-	-	-	-	-	-	-	-
b HIV	-	-	-	-	-	-	-	-	-	-
c **Total Prevention Services**	-	-	-	-	-	-	-	-	-	-
510 **Medication**										
a Medication Expense	10,188,077	1,624,196	2,126,751	90,446	1,061,847	-	16,467,262	2,354,527	14,497,786	1,625
b **Less Pharmacy Rebate Received**	(1,215,090)	(36,753)	(44,049)	(9,520)	(97,250)	-	(1,510,049)	(121,824)	(1,191,943)	(20,612)
c Pharmacy Rebate Related Expense	307,859	9,255	11,043	2,407	24,630	-	377,538	30,544	299,989	5,140
d **Total Medication Services**	9,280,846	1,596,698	2,093,745	83,333	989,227	-	15,334,751	2,263,247	13,605,832	(13,847)
511 Other ADHS Service Expenses Not Rpt'd Above	-	-	-	-	-	-	-	-	-	-
512 ADHS/DOC COOL	-	-	-	-	-	-	-	-	-	-
513 **Subtotal ADHS Service Expenses**	64,961,988	35,639,924	6,380,749	6,255,264	4,971,413	-	170,783,037	6,287,538	90,447,364	782,953
520 Service Expenses from Non ADHS Sources										
525 **Total Service Expense**	64,961,988	35,639,924	6,380,749	6,255,264	4,971,413	-	170,783,037	6,287,538	90,447,364	782,953
Administrative Expenses:										
601 Salaries	2,028,281	766,997	147,013	173,070	136,366	-	4,580,488	148,892	1,972,039	27,784
602 Employee Benefits	467,217	176,679	33,865	39,867	31,412	-	1,055,122	34,298	454,262	6,400
603 Professional & Outside Services	581,492	219,892	42,147	49,618	39,095	-	1,313,189	42,686	565,368	7,965
604 Travel	37,369	14,131	2,709	3,189	2,512	-	84,391	2,743	36,333	512
605 Occupancy	134,691	50,934	9,763	11,493	9,056	-	304,175	9,887	130,956	1,845
606 Depreciation	523,918	198,120	37,974	44,705	35,224	-	1,183,169	38,460	509,390	7,177
607 All Other Operating	2,687,227	1,016,178	194,774	229,296	180,668	-	6,068,594	197,265	2,612,714	36,810
608 **Subtotal ADHS Administrative Expenses**	6,460,195	2,442,931	468,245	551,238	434,333	-	14,589,128	474,231	6,281,062	88,493
650 Non ADHS Administrative Expenses	-	-	-	-	-	-	-	-	-	-
651 Unrelated Admin. Expense										
652 **Subtotal Administrative Expense**	6,460,195	2,442,931	468,245	551,238	434,333	-	14,589,128	474,231	6,281,062	88,493
701 Unrelated Business Expenses										
790 **Income Tax Provisions**										
a ADHS Income Tax Provision	5,340,827	(2,385,125)	(301,205)	186,501	242,886	-	2,453,689	(158,810)	(5,600,978)	121,979
b Non ADHS Income Tax Provision	-	-	-	-	-	-	105,008	-	86,856	-
799 **Subtotal Income Tax Provision**	5,340,827	(2,385,125)	(301,205)	186,501	242,886	-	2,558,697	(158,810)	(5,514,122)	121,979
800 **TOTAL EXPENSES**	76,763,010	35,697,730	6,547,789	6,993,003	5,648,632	-	187,930,862	6,602,959	91,214,304	993,425
801 **INC/(DEC) IN NET ASSETS/EQUITY**	8,117,116	(3,624,970)	(457,783)	283,449	369,144	-	3,888,767	(241,363)	(8,380,496)	185,388

	TXXI ADULT	SSDI - TMC	TXIX GMHSA	HIFA II GMH	MENTAL HEALTH	SUBSTANCE ABUSE	PREVENTION INTERVENTION	PASRR	ADHS DOC	OTHER	SUB TOTAL	PROGRAM ADMIN & MGMT/GEN	TOTAL
REVENUES													
401 **Revenue Under ADHS Contract**													
a ADHS Revenue	156,731	26,045	80,343,628	1,011,794	2,269,689	22,522,228	5,973,376	48,900	1,474,648	-	531,875,329	-	531,875,329
b ADHS Revenue - Qualifying Incentive Payments	-	-	-	-	-	-	-	-	-	-	-	2,737,979	2,737,979
402 Specialty & Other Grants	-	-	-	-	-	-	-	-	-	-	-	-	-
403 Client Fees (Co-pays)	-	-	6	-	24	9	-	-	-	-	1,127	-	1,127
404 **Third Party Recoveries**													
a Medicare	-	-	1,147	-	4,678	362	-	-	-	-	301,802	-	301,802
b Other Insurance	-	-	-	-	5,776	770	-	-	-	-	192,519	-	192,519
405 Interest Income											-	3,049,357	3,049,357
406 Other Funding Sources - Non ADHS	-	-	-	-	-	-	-	-	-	424,786	424,786	-	424,786
407 Unrelated Business Activities	-	-	-	-	-	-	-	-	-	-	-	-	-
408 **TOTAL REVENUE**	156,731	26,045	80,344,781	1,011,794	2,280,167	22,523,369	5,973,376	48,900	1,474,648	424,786	532,795,563	5,787,336	538,582,699
EXPENSES													
Service Expenses:													
501 **Treatment Services**													
a Counseling													
1 Counseling, Individual	7,752	2,700	3,440,170	80,852	221,967	392,262	-	-	-	-	16,934,911	-	16,934,911
2 Counseling, Family	2,857	283	315,602	8,202	31,797	26,138	-	-	-	-	10,819,493	-	10,819,493
3 Counseling, Group	10,109	2,405	5,696,481	38,985	234,333	2,157,376	-	-	-	-	11,015,000	-	11,015,000
b Consultation, Assessment & Specialized Testing	10,922	1,826	5,478,591	96,446	310,731	863,238	-	-	-	-	16,482,059	-	16,482,059
c Other Professional	-	-	-	-	332,904	419,720	-	-	-	-	864,680	-	864,680
d **Total Treatment Services**	31,640	7,214	14,930,844	224,485	1,131,732	3,858,734	-	-	-	-	56,116,143	-	56,116,143
502 **Rehabilitation Services**													
a Living Skills Training	691	4,141	699,996	9,487	24,515	34,449	-	-	-	-	23,949,359	-	23,949,359
b Cognitive Rehabilitation	-	-	-	-	-	-	-	-	-	-	3,838	-	3,838
c Health Promotion	34	11	125,857	2,523	4,739	13,255	-	-	-	-	1,237,120	-	1,237,120
d Supported Employment Services	5,521	247	926,092	68	19,296	19,809	-	-	-	-	9,134,689	-	9,134,689
e **Total Rehabilitation Services**	6,246	4,399	1,751,945	12,078	48,550	67,513	-	-	-	-	34,325,006	-	34,325,006
503 **Medical Services**													
a Medication Services	1,741	15	2,998,044	12,301	34,196	1,165,760	-	-	-	-	4,761,544	-	4,761,544
b Medical Management	14,473	2,301	3,208,680	75,857	163,203	157,738	-	-	-	-	15,948,572	-	15,948,572
c Laboratory, Radiology & Medical Imaging	1,520	125	345,579	4,541	33,166	51,660	-	-	-	-	1,682,643	-	1,682,643
d Electro-Convulsive Therapy	-	-	23,773	-	-	-	-	-	-	-	180,983	-	180,983
e **Total Medical Services**	17,734	2,441	6,576,076	92,699	230,565	1,375,158	-	-	-	-	22,573,742	-	22,573,742
504 **Support Services**													
a Case Management	3,784	1,745	5,332,566	120,287	1,688,064	649,652	-	-	-	-	101,844,752	-	101,844,752
b Personal Assistance	-	-	790,323	23	463	123	-	-	-	-	23,628,085	-	23,628,085
c Family Support	-	-	21,933	-	1,288	1,444	-	-	-	-	5,468,401	-	5,468,401
d Peer Support	477	255	1,268,024	6,302	35,816	712,363	-	-	-	-	7,043,285	-	7,043,285
e Therapeutic Foster Care Services	-	-	-	-	3,319	4,443	-	-	-	-	14,282,784	-	14,282,784
f Respite Care	-	-	1,631	32	-	-	-	-	-	-	2,581,201	-	2,581,201
g Housing Support	-	1,092	-	-	34,943	476,175	-	-	-	-	3,204,240	-	3,204,240
h Interpreter Services	-	-	-	-	93,842	16,421	-	-	-	-	528,185	-	528,185
i Flex Fund Services	-	589	-	-	12,916	24,307	-	-	-	-	1,088,978	-	1,088,978
j Transportation	2,610	1,213	2,188,673	8,963	517,515	454,048	-	-	-	-	11,499,744	-	11,499,744
k Block Purchase NTXIX Consumer Drop In Center	-	-	63,948	-	-	1,160	-	-	-	-	1,489,728	-	1,489,728
l **Total Support Services**	6,871	4,894	9,667,098	135,607	2,388,166	2,340,136	-	-	-	-	172,659,383	-	172,659,383
505 **Crisis Intervention Services**													
a Crisis Intervention - Mobile	3,928	-	1,917,357	16,079	1,466,668	360,670	-	-	-	-	8,623,896	-	8,623,896
b Crisis Services	3,179	91	4,680,991	11,965	692,646	3,892,788	-	-	-	-	11,992,508	-	11,992,508
c Crisis Phones	1,949	5	213,465	4,676	63,876	21,982	-	-	-	-	4,045,499	-	4,045,499
d **Total Crisis Intervention Services**	9,056	96	6,811,813	32,720	2,223,190	4,275,440	-	-	-	-	24,661,903	-	24,661,903
506 **Inpatient Services**													
a Hospital													
1 Psychiatric (Provider Types 02 & 71)	33,039	-	3,818,246	29,981	1,575,920	646,888	-	-	-	-	31,914,568	-	31,914,568
2 Detoxification (Provider Types 02 & 71)	5,167	-	154,911	-	738	7,695	-	-	-	-	341,505	-	341,505
b Sub acute Facility													
1 Psychiatric (Provider Types B5 & B6)	-	-	-	-	-	-	-	-	-	-	2,701,283	-	2,701,283
2 Detoxification (Provider Types B5 & B6)	-	-	-	-	-	-	-	-	-	-	-	-	-
c Residential Treatment Center (RTC)													
1 Psychiatric - Secure & Non-Secure Provider Types 78,B1,B2,B3)	4,368	5,426	3,705,160	9,326	491,403	1,614,220	-	-	-	-	32,365,152	-	32,365,152
2 Detoxification - Secure & Non-Secure (Provider Types (78,B1,B2,B3)	-	-	-	-	-	-	-	-	-	-	18,298	-	18,298
d Inpatient Services, Professional	1,130	-	446,168	3,752	185,261	75,225	-	-	-	-	2,059,770	-	2,059,770
e **Total Inpatient Services**	43,704	5,426	8,124,485	43,059	2,253,322	2,344,028	-	-	-	-	69,400,576	-	69,400,576
507 **Residential Services**													
a Level II Behavioral Health Residential Facilities	5,913	-	6,579,507	3,380	25,785	1,496,733	-	-	-	-	29,220,422	-	29,220,422
b Level III Behavioral Health Residential Facilities	-	-	46,368	-	-	-	-	-	-	-	3,882,095	-	3,882,095
c Room and Board	-	-	-	-	137,052	1,349,670	-	-	-	-	3,943,179	-	3,943,179
d **Total Residential Services**	5,913	-	6,625,875	3,380	162,837	2,846,403	-	-	-	-	37,045,696	-	37,045,696
508 **Behavioral Health Day Program**													
a Supervised Day Program	-	-	49,785	-	261	118	-	-	-	-	1,755,664	-	1,755,664
b Therapeutic Day Program	458	106	1,451,671	9,399	41,069	738,471	-	-	-	-	5,739,749	-	5,739,749
c Medical Day Program	-	-	-	-	-	-	-	-	-	-	13,446	-	13,446
d **Total Behavioral Health Day Program**	458	106	1,501,456	9,399	41,330	738,589	-	-	-	-	7,508,859	-	7,508,859
509 **Prevention Services**													
a Prevention	-	-	-	-	-	-	4,989,482	-	-	-	4,989,482	-	4,989,482
b HIV	-	-	-	-	-	936,524	-	-	-	-	936,524	-	936,524
c **Total Prevention Services**	-	-	-	-	-	936,524	4,989,482	-	-	-	5,926,006	-	5,926,006
510 **Medication**													
a Medication Expense	16,042	38,659	10,663,738	267,551	249,558	81,463	-	-	-	-	59,729,528	-	59,729,528
b **Less Pharmacy Rebate Received**	-	-	(950,585)	-	(22,576)	(7,597)	-	-	-	-	(5,227,848)	-	(5,227,848)
c Pharmacy Rebate Related Expense	-	-	237,930	-	5,708	1,937	-	-	-	-	1,313,980	-	1,313,980
d **Total Medication Services**	16,042	38,659	9,951,083	267,551	232,690	75,803	-	-	-	-	55,815,660	-	55,815,660
511 Other ADHS Service Expenses Not Rpt'd Above	-	-	-	-	-	-	-	45,233	-	-	45,233	-	45,233
512 ADHS/DOC COOL	-	-	-	-	-	-	-	-	1,219,897	-	1,219,897	-	1,219,897
513 **Subtotal ADHS Service Expenses**	137,664	63,235	65,940,675	820,978	8,712,382	18,858,328	4,989,482	45,233	1,219,897	-	487,298,104	-	487,298,104
520 Service Expenses from Non ADHS Sources											-		-
525 **Total Service Expense**	137,664	63,235	65,940,675	820,978	8,712,382	18,858,328	4,989,482	45,233	1,219,897	-	487,298,104	-	487,298,104
Administrative Expenses:													
601 Salaries	2,334	382	1,921,197	22,845	54,193	538,398	142,666	1,151	35,091	-	12,699,187		12,699,187
602 Employee Benefits	538	88	442,551	5,262	12,484	124,021	32,863	265	8,083	-	2,925,277		2,925,277
603 Professional & Outside Services	669	109	550,792	6,550	15,537	154,354	40,901	330	10,060	-	3,640,754		3,640,754
604 Travel	43	7	35,396	421	998	9,919	2,628	21	647	-	233,969		233,969
605 Occupancy	155	25	127,580	1,517	3,599	35,753	9,474	76	2,330	-	843,309		843,309
606 Depreciation	603	99	496,258	5,901	13,998	139,072	36,852	297	9,064	-	3,280,281		3,280,281
607 All Other Operating	3,092	506	2,545,355	30,267	71,800	713,312	189,015	1,526	46,491	-	16,824,890		16,824,890
608 **Subtotal ADHS Administrative Expenses**	7,434	1,216	6,119,129	72,763	172,609	1,714,829	454,399	3,666	111,766	-	40,447,667	-	40,447,667
650 Non ADHS Administrative Expenses	-	-	-	-	-	-	-	-	-	-	-	1,067,275	1,067,275
651 Unrelated Admin. Expense											-		-
652 **Subtotal Administrative Expense**	7,434	1,216	6,119,129	72,763	172,609	1,714,829	454,399	3,666	111,766	-	40,447,667	1,067,275	41,514,942
701 Unrelated Business Expenses											-		-
790 **Income Tax Provisions**													
a ADHS Income Tax Provision	4,617	(15,241)	3,287,460	46,848	(2,625,310)	773,493	210,131	-	56,744	-	1,638,506	-	1,638,506
b Non ADHS Income Tax Provision	-	-	458	-	4,165	454	-	-	-	168,577	365,518	1,873,172	2,238,690
799 **Subtotal Income Tax Provision**	4,617	(15,241)	3,287,918	46,848	(2,621,145)	773,947	210,131	-	56,744	168,577	2,004,024	1,873,172	3,877,196
800 **TOTAL EXPENSES**	149,715	49,210	75,347,722	940,589	6,263,846	21,347,104	5,654,012	48,899	1,388,407	168,577	529,749,795	2,940,447	532,690,242
801 **INC/(DEC) IN NET ASSETS/EQUITY**	7,016	(23,165)	4,997,059	71,205	(3,983,679)	1,176,265	319,364	1	86,241	256,209	3,045,768	2,846,889	5,892,657

The accompanying notes are an integral part of this statement.

1. Description of Business and Basis of Presentation

Description of Business

Effective July 12, 2004, VO of Arizona, Inc. (the "Company") was incorporated in the State of Arizona. On that date, the assets and liabilities of the Arizona Division of ValueOptions, Inc. (the "Division") were transferred to the Company and the Division's contract with the Arizona Department of Health Services – Division of Behavioral Health Services ("ADHS–DBHS") (the "Contract") was legally assigned to the Company. VO of Arizona, Inc. is a wholly-owned subsidiary of ValueOptions, Inc. ("ValueOptions"), a Virginia corporation. ValueOptions is a wholly-owned subsidiary of FHC Health Systems, Inc. ("FHC"), also a Virginia corporation.

FHC and ValueOptions report on a calendar year basis. The Company reports on a June 30 fiscal year-end to coincide with the fiscal year of the State of Arizona and the terms of the Contract. All the revenues, expenses, assets and liabilities of the Company are directly attributable to the Contract.

The Company provides managed behavioral healthcare services to Maricopa County Medicaid ("Title XIX"), Non-Medicaid ("Non-Title XIX"), and KidsCare ("Title XXI") beneficiaries under a contract with the ADHS-DBHS. The Company also provides managed behavioral healthcare services to capitated adults under a special Healthcare Insurance Flexibility Accounting ("HIFA II") waiver funded from excess KidsCare funding.

The original term of the Contract was three years, commencing on September 19, 1998 and continued through June 30, 2001 with two additional one-year options for renewal, both of which were executed. On July 1, 2003, there was a separate one-year contract executed with no option to renew. In February 2004, the ADHS-DBHS awarded ValueOptions a new three-year contract, effective July 1, 2004, with two one-year options for renewal. The Contract was subsequently assigned to the Company as described above. None of the current one-year options have been exercised. In March 2007, an amendment to the Contract was executed extending the contract to August 31, 2007.

Basis of Presentation

The accompanying statement of activities is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accompanying statement of activities is prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

The Company follows the ADHS-DBHS Financial Reporting Guide for Regional Behavioral Health Authorities and Tribal Regional Behavioral Health Authorities with an effective date of July 1, 2006 (the "Reporting Guide"). The Reporting Guide contains prescribed reporting guidelines for the preparation of the accompanying statement of activities. In accordance with these guidelines the Company records revenues and expenses in columns ("Fund Sources") representing programs administered by the ADHS-DBHS. In addition, the Company records service expense in rows ("Types of Service") based on Exhibit A of the Reporting Guide.

In December 2006, the ADHS-DBHS announced that a request for proposal would be issued in January 2007 for the contract year beginning July 1, 2007. The request for proposal was amended in March 2007 to reflect a contract start date of September 1, 2007.

On June 12, 2007 the Company received notice from the Arizona Department of Health Services ("ADHS") that the Company was not awarded the new contract for services beginning September 1, 2007. The successful bidder for the new Contract was Magellan Health Services ("Magellan"). The Company will continue performance under the current Contract through August 31, 2007. The Contract amounted to essentially all of the Company's revenues for fiscal year 2007.

The loss of the Contract raises substantial doubt about the Company's ability to continue as a going concern. The accompanying statement of activities does not include any adjustments relating to the recoverability of asset carrying amounts or the recognition of additional liabilities other than management's estimate of an asset impairment (see Note 2). On August 24, 2007, the Company's Board of Directors approved a plan to adopt a voluntary plan of liquidation effective August 31, 2007. Although the Company will not continue operating after August 31, 2007, management believes the Company has adequate cash on hand to settle all outstanding obligations.

As of June 30, 2006, the Company was not in compliance with the financial covenant requirements of the Contract as a result of payments made to FHC on intercompany borrowings. Additionally, as of June 30, 2006, the Company had net receivables from FHC of approximately $6,000,000.

Subsequent to June 30, 2006, the Company received capital contributions from FHC of approximately $8,100,000, and in addition, FHC paid off the intercompany balance that existed as of June 30, 2006. These activities have resulted in the Company satisfying the financial covenant requirements described above in November 2006. As disclosed in Note 7, the Company has maintained compliance with the financial covenant requirements of the Contract through June 30, 2007.

2. Summary of Significant Accounting Policies

Contract Revenue

The Company receives substantially all of its revenue from the Contract. Contract revenues include funds for behavioral healthcare services and prevention programs for youth and seriously mentally ill ("SMI") adult and substance abuse populations under three major types of revenue sources: Title XIX, Title XXI, and Non-Title XIX. Contract revenue is recognized in the period for which the Company is obligated to provide covered services. Deferred revenue relates to grant amounts received in the current year that cannot be recognized until certain terms are met. Contract revenue is also limited by the terms of the Contract to a maximum profit percentage, as defined. Contract revenue that cannot be recognized due to these profit limits (4% on Title XIX, Title XXI and Non-Title XIX) is deferred until future periods.

Title XIX Revenue

The Contract requires the Company to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Company receives monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XIX Arizona Health Care Cost Containment System ("AHCCCS") enrollees eligible for covered services during that month. In addition, the Company also receives revenue for Preadmission Screening and Resident Review ("PASARR") screenings on a fee-for-service basis from the ADHS-DBHS.

Title XXI Revenue

The Contract requires the Company to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Company receives monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XXI AHCCCS enrollees eligible for covered services during that month.

Non-Title XIX Revenue
The Contract provides for payment to the Company at a monthly rate equal to one-twelfth of specified annual contract maximums under the ADHS-DBHS Non-Title XIX programs. These programs provide behavioral healthcare services to lower income uninsured or underinsured individuals not eligible for behavioral healthcare coverage under Title XIX or Title XXI. Non-Title XIX programs are funded through a combination of federal behavioral healthcare block grant funds, State of Arizona funds and Maricopa County funds administered by the ADHS-DBHS.

Other Revenue
Under the Contract, the Company is required to provide services under certain grants for special populations. Payment is made by the ADHS-DBHS based on expenditure reports submitted by the Company. The Contract allows for performance incentives to be earned by the Company based on various operational and reporting performance requirements as defined in the Contract. The Company records these incentives when received as this is the best determination of when the earnings process has been completed. Incentive payments are specifically excluded from both administrative and profit limitations. Interest income on the Company's investments, cash and cash equivalents is recorded in Program Administration and Management & General. These revenues are not included in the calculations of profit limitations.

Services Expense
Program services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Program services provided under block purchase arrangements are accrued based upon contract terms. From time-to-time, the Company amends its provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

Service expense is recorded in each Fund Source as follows:

- *Block Purchase Arrangements*
  The Company contracts with its providers under block purchase arrangements for services provided to consumers meeting the eligibility requirements for each Fund Source with the exception of Title XIX Developmentally Disabled ("DD") Child, Title XIX DD Adult, and ADHS - Department of Corrections ("DOC"). Consumers eligible for services under these Fund Sources are contracted for under block purchases for all other Fund Sources. Service expense allocated to these Fund Sources is estimated based on available eligible consumers' utilization related to the year ended June 30, 2007. Service expense is recorded in all other Fund Sources based on the explicitly contracted amounts in the block purchase arrangements after giving effect to the allocations described above.

- *Fee-for-Service Arrangements*
  The Company records service expense under fee-for-service arrangements (including pharmacy claims) based on actual and estimated services rendered to consumers meeting the eligibility requirements for each Fund Source.

- *Services Provided Directly by the Company*
  The Company records Case Management, Crisis Phones, and Urgent Psychiatric Care Center services provided directly by the Company in each Fund Source based on the proportion of consumers receiving these services that meet the eligibility requirements for each Fund Source. All other services provided by the Company are allocated to Fund Sources based on revenue.

- *Pharmacy Sales Incentives*
  The Company includes reimbursements received under pharmacy contracts with suppliers in Pharmacy Sales Incentives. The Company records these incentives in each Fund Source based on the actual utilization of the medications to which the incentive arrangements relate.

The Company primarily allocates total service expense to Types of Service within each Fund Source using the ratio of consumer encounter values received for each Type of Service to total consumer encounter values received for each Fund Source. Service expense allocated to the Types of Service is estimated based on available eligible consumers' utilization related to the year ended June 30, 2007.

Case Management, Block Purchase NTXIX Consumer Drop-In Center, Crisis Phones, Prevention, HIV, and Medications service expense are reflective of the actual expense incurred and excluded from the allocation process described above.

For PASARR and ADHS-DOC Fund Sources, the Company reports service expense in total only.

Estimation Process
The preparation of the statement of activities requires management to make estimates and assumptions that affect amounts reported in the statement of activities and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

The Company uses a variety of methods to estimate the unpaid service expense including historical claims submission patterns, payments to be made under contract arrangements currently in force, and correspondence with significant providers to ascertain the level of care being provided to beneficiaries for which a claim has not yet been submitted.

Total service expense includes estimates of amounts due on reported claims and claims that have been incurred but were not reported as of June 30, 2007. These expenses represent the Company's best estimate of amounts that are reasonable and adequate to discharge the Company's obligations for claims incurred but unpaid as of June 30, 2007. Such estimates are however subject to a significant degree of inherent variability. Estimates are continually reviewed and adjusted as necessary as experience develops and new information becomes known; such adjustments are included in current operations. For the year ended June 30, 2007 service expense decreased (increased) related to such revisions and was recorded as follows:

Title XIX Child	$ 523,000
Title XIX CMDP	(740,000)
Title XIX DD Child	20,000
Non-Title XIX Child	90,000
Title XXI Child	(12,000)
Title XXI HIFA GMH	6,000
Title XIX SMI	(76,000)
Title XIX DD Adult	(13,000)
Non-Title XIX SMI	(41,000)
Title XXI SMI	5,000
Title XXI HIFA SMI	28,000
Title XIX GMHSA	73,000
Non-Title XIX Mental Health	(1,000)
Non-Title XIX Substance Abuse	16,000
	$ (122,000)

Administrative Expense

Total administrative expenses are limited by the Contract to 7.5% of contract revenue for all programs. In accordance with the Contract, income tax expense is not included as an administrative expense of the Company that is subject to this limitation. Effective July 1, 2004, the Contract limits the percentage of administrative expenses incurred outside of Arizona to 35% of total available administrative revenue for all programs. Administrative expenses are allocated to Fund Source based on revenue.

Income Taxes

The provision for income taxes is computed using the statutory rate, based on the Company's income, after giving effect to permanent differences. The Company computes the income tax expense attributable to each Fund Source by applying the Company's effective tax rate to net income before income taxes for each Fund Source.

Premium Deficiencies

The Company records an expense to provide a premium deficiency reserve when expected claims payments or incurred costs, claims adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period. Anticipated investment income is not used as a factor in the premium deficiency reserve calculation. No such expense was recorded during the year ended June 30, 2007.

Depreciation Expense

The Company provides for depreciation using the straight-line method over the estimated useful lives of the related assets as follows:

Computers	3 years
Furniture and fixtures	10 years
Fixed Equipment	4 years
Leasehold improvements	lesser of remaining term of lease or estimated useful life

Impairment of Long-Lived Assets

The carrying value of long-lived assets other than goodwill is evaluated when certain events and circumstances indicate that the carrying amount may exceed fair value. The fair value is calculated using expected cash flows produced by the asset, or the appropriate grouping of assets, over the remaining life of such assets and their eventual disposition. If the undiscounted projected cash flows are less than the carrying amount, an impairment is recognized.

For the year ended June 30, 2007, the Company recorded an asset impairment charge of approximately $1,400,000 related to property and equipment at the Company's administrative service building, which is included in general and administrative expenses in the accompanying statements of activities.

On July 17, 2007, the Company signed a binding letter of agreement with Magellan to sell the fixed assets related to the direct care clinics and transition the operation of the direct care clinics for $10,843,000, effective August 31, 2007. This transaction is not reflected in the accompanying statement of activities for the year ended June 30, 2007.

Deferred Lease Credits

Leases related to office space contain provisions for rent escalations and incentives from lessors in the form of reduced rents or free rental periods. Rent expense related to these leases is charged to expense on a straight-line basis over the life of the lease. Differences that arise between amounts paid and the expense recognized are recorded as increases to or charges against the deferred lease credit liability.

3. Retirement Plan

The Company participates in the FHC 401(k) Defined Contribution Employee Benefit Plan ("Plan"). With the expiration of the Contract (see Note 1) and the cessation of ongoing operations for the Company, FHC determined that the early vesting requirements of the partial plan termination guidelines were met. Accordingly, all employees of the Company directly affected by the Contract expiration qualify for a 100% vesting of their 401(k) matching contributions. The Company made matching contributions to the plan of approximately $958,000 for the year ended June 30, 2007.

4. Income Taxes

VO of Arizona files a consolidated federal income tax return with FHC. The provision for income taxes is computed for each entity and entity division in the consolidated group at the statutory rate based on each entity's income after giving effect to permanent differences. The Company is allocated its proportionate share of FHC tax expense. Separate or unitary income tax returns are filed in the states in which FHC and its subsidiaries conduct business including the State of Arizona, which is filed on a consolidated basis.

The provision for income taxes consisted of the following:

Currently payable	
Federal	$ 4,991,450
State	1,054,881
	6,046,331
Deferred income taxes	
Federal	(1,797,705)
State	(371,430)
	(2,169,135)
	$ 3,877,196

The effective income tax rate on the Company's pre-tax earnings differs from the Federal statutory income tax rate as follows:

Statutory Federal income tax rate	35 %
State income tax, net of federal benefit	5
	40 %

5. Related-Party Transactions

FHC, ValueOptions and affiliated companies provide administrative and other services to the Company, including systems functions, accounts payable and payroll processing. Included in general and administrative expenses is an allocation of the costs of the administrative services provided by affiliated companies. The Company's allocation was approximately $8,980,000 for the year ended June 30, 2007.

The affiliate balance (due to or due from) with ValueOptions is non-interest bearing. The Company periodically transfers cash to ValueOptions in satisfaction of payments made on its behalf. During the year ended June 30, 2007 cash payments to ValueOptions exceeded its actual obligations by $6,309,733.

Under the provisions of the Contract with ADHS-DBHS, dividends and other distributions may be paid only to the extent of allowable profit in each of the funding sources as defined. The Company distributed $4,958,000 for the year ended June 30, 2007

The Company serves as the administrative trustee of Casa Buena, Inc. ("Casa Buena"), a non-profit 501(c)3 corporation that was the recipient of grants and contributions from the ComCare Liquidation Proceeds Trust established by the ADHS-DBHS. Various expenses are paid by the Company on behalf of Casa Buena. The members of Casa Buena's Board of Directors are employed by ValueOptions or the Company. Under the provisions of a compensation agreement, as amended, the Company is allowed an administrative fee, set at an amount of up to 8% of total expenditures by Casa Buena in any given year. The administrative fee charged by the Company for the year ended June 30, 2007 was $0.

6. Commitments and Contingencies

Leases
The Company leases office space in Arizona for its headquarters and various case management clinics. Rent expense for the year ended June 30, 2007 was approximately $8,084,000.

Aggregate future minimum payments of the Company under these leases, for the five years ending after June 30, 2007 are as follows:

Year ending June 30,

2008	$	7,636,000
2009		7,469,000
2010		4,174,000
2011		986,000
2012		378,000
Thereafter		1,165,000
	$	21,808,000

Under the terms of the letter agreement with Magellan (see Note 1), the leases for the direct service clinics, with future minimum payments of approximately $16,840,000, will be assigned to Magellan as of September 1, 2007.

Liability Insurance
The Company, through FHC, maintains professional and general liability insurance coverage under claims-made policies. Effective November 11, 2005, the Company is insured for losses up to $15,000,000 per claim and in the aggregate, with self-insured retentions of $2,500,000 per claim. The Company is also covered under an umbrella policy providing for professional and general liability coverage up to $10,000,000 per claim and in the aggregate. The Company participates in the above policy with its affiliates. Per claim and aggregate limits are applicable to all covered entities as a group.

Effective August 31, 2007 and corresponding with the Contract expiration (see Note 1), the Company purchased, through FHC, claims reported endorsement (tail coverage) to cover claims incurred but not reported. The tail coverage has a self-insured retention of $1,000,000 per claim with an aggregate limit of $25,000,000 for claims that occur prior to September 1, 2007 but are reported at some point in the future. The tail coverage relates solely to claims made against the Company.

Litigation
The Company is from time to time subject to claims and suits arising in the ordinary course of operations. As of June 30, 2007, the Company has reserves of approximately $7,449,000 for expected losses related to these exposures.

7. Contract Requirements

The Company is subject to Contract provisions which require the Company to maintain certain financial ratios, a net worth requirement of the greater of $10,000,000 or 90% of any given month's total payments for the contract year ending June 30 and the maintenance of a performance bond equal to 110% of each quarter's capitation as determined by the ADHS-DBHS. In satisfaction of the bond requirement, the Company maintained a surety bond in the required amount of approximately $49,932,000 as of June 30, 2007.

As of June 30, 2006, the Company was not in compliance with its minimum equity requirement or its defensive interval requirement, as stipulated in the Contract. The Company cured these violations subsequent to June 30, 2006. Management does not believe that this noncompliance materially affected the Company's financial statements. While the Company could have been subject to financial penalties as a result of this non-compliance, no such penalties were imposed by the ADHS-DBHS.

As discussed in Note 2, the Company is limited by the terms of the Contract to profit that can be earned under the various programs. Contract profit limitations are applied on an after-tax basis. Also, if the Company's profit exceeds the profit limitations resulting in the reduction of recognized revenue, the related administrative revenue and income tax effect of that reduction is not considered for purposes of the profit limitation.

Total administrative expenses are limited by the Contract to 7.5% of contract revenue for all programs. In accordance with the Contract, income tax expense is not included as an administrative expense of the Company that is subject to this limitation. Effective July 1, 2004, the Contract limits the percentage of administrative expenses incurred outside of Arizona to not exceed 35% of total available administrative revenue for all programs.

As of June 30, 2007, the Company has reported less than the minimum number of encounters as stipulated in the Contract and is subject to a potential recoupment by the ADHS-DBHS of approximately $168,000 if no more encounters are submitted. This amount has been recorded in administrative expenses as the Company expects that less than the minimum number of encounters will be submitted for Title XXI fund sources. The Company has until February 28, 2008 to submit encounters related to the year ended June 30, 2007. In addition, the ADHS-DBHS has a right to sanction the Company for other matters of non-compliance of the Contract, as determined by the ADHS-DBHS. The Company recorded approximately $1,495,000 (including the $168,000 discussed above) as administrative expenses for sanctions during the year ended June 30, 2007.

Provisions of the Contract subject the Company to the Office of Management and Budget's Circulars A-133 and A-122 requirements, effective July 1, 2004. The Company did not comply with certain requirements and, therefore is subject to potential sanctions for matters of noncompliance of the Contract. Management does not believe these matters will materially affect the Company's financial statements, therefore, no amounts have been provided as of June 30, 2007 related to these matters.

8. Regulatory

The healthcare industry is subject to numerous laws and regulations. The subjects of such laws and regulations cover, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, information privacy and security, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Over the past several years, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare organizations and insurers. The Company has been subject to investigation and reached settlement agreements on two matters as discussed below. With the resolution of these matters, management does not believe the results of any current inquiries, audits or reviews, currently threatened or pending, individually or in the aggregate, will have a material adverse effect of the Company's financial position or results of operations.

During the fiscal year ended June 30, 2006, the Company received incentive payments in the amount of approximately $3,544,000 based on performance for the fiscal year ended June 30, 2005. At management's discretion, the Company distributed $1,772,000, approximately fifty percent of the incentive payment, to providers. Subsequent to receipt of the incentive payments, AHCCCS contended that the full incentive for the fiscal year ended June 30, 2005 was not earned by the Company due to issues related to the valuation of encounters for services provided directly by the Company to consumers. In fiscal year 2007, ValueOptions and AHCCCS reached a settlement agreement whereby ValueOptions will repay $2,000,000 of the payments originally received plus $52,000 in investigative costs. This amount has been charged by ValueOptions to the Company as it relates to the Contract and was accrued as of June 30, 2006. Under the terms of the settlement agreement, $400,000 was paid within 45 days of signing of the agreement with the remainder to be paid in 17 consecutive monthly installments of approximately $97,000. As of June 30, 2007, the remaining obligation on this settlement of approximately $1,069,000 is included in accounts payable and other accrued liabilities. Net incentive revenue of $2,738,000 is included in grants and other revenue in the accompanying statement of activities for the fiscal year ended June 30, 2007.

In July 2006, ValueOptions received notice that the United States Department of Justice (DOJ), acting on behalf of the Office of Inspector General of the Department of Health and Human Services, was investigating certain financial reporting matters under the Contract. On December 1, 2006, ValueOptions reached a settlement agreement with DOJ resolving the financial reporting matters in question. ValueOptions agreed to pay $1,180,000 in settlement of issues related to contract agreements with providers on the HIFA II program for the fiscal year ended June 30, 2003. This amount has been charged by ValueOptions to the Company as it relates to the Contract and was accrued as of June 30, 2006. Under the terms of the settlement agreement, $236,000 was paid within 10 days of signing of the agreement with the remainder to be paid in 18 consecutive monthly installments of approximately $52,000 commencing in January 2007. As of June 30, 2007, the remaining obligation on this settlement of approximately $577,000 is included in accounts payable and other accrued liabilities.

9. Severance and Retention Costs

On June 27, 2007, all employees were notified by the Company that severance payments will be available to all eligible employees who no longer have a job as a result of the Contract expiration on August 31, 2007 (see Note 1). Eligible employees included regular full-time and part-time employees who work at least 20 hours per week. Employees who are offered a job with Magellan will not be eligible for severance from the Company. Severance benefits are equivalent to one week of pay for every full year of service, up to 10 weeks pay. To be eligible for severance, employees must continue to be employed through the last day of employment as indicated in their termination notification letter. The majority of employees will have a termination date of August 31, 2007. However, approximately 100 employees will be retained past August 31, 2007 to assist with the Contract closing activities.

Additionally, ten key employees signed special severance letter agreements for severance outside the normal severance policy of ValueOptions.

In order to effectively continue to provide services through the end of the current contract period, the Company also offered a retention bonus to certain key employees deemed to be critical to the successful completion of the current contract and transition of the direct care clinics to Magellan. Retention was based on an analysis of the employee's job function and the estimated employment end date.

The ultimate costs of the severance and retention plans may differ from Company estimates if employees leave the Company prior to their termination date. Costs for standard severance agreements were fully recognized as of June 30, 2007, while costs for severance according to letter agreements and retention agreements are recognized pro-ratably over the remaining period of employment. Estimated costs have been recorded in general and administrative expenses in the accompanying statement of activities and are summarized as follows:

Severance cost:	
Standard severance	$ 1,002,000
Severance per letter agreements	75,000
	1,077,000
Retention bonus costs	317,000
Total employee termination costs	$ 1,394,000